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Dairy

Background for 1990 Farm Legislation

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Dairy: Background for 1990 Farm Legislation. By Richard F. Fallert, Don P. Blayney, and James J. Miller. Commodity Economics Division, Economic Research Service, U.S. Department of Agriculture. Staff Report AGES 9020.

Abstract

The U.S. dairy industry is primarily a domestic industry with both imports and exports hovering around 2 percent of U.S. milk production. After a period of relatively high dairy price supports in the late 1970's and early 1980's which distorted milk prices and generated substantial excess milk supplies, the industry spent most of the 1980's attempting to reduce dairy program purchases and Government costs. Continuing issues are the appropriate price support level, the degree of automatic price adjustment, and the proper formula or mechanism for attaining it.

Keywords: Costs and returns, dairy programs, domestic use, milk marketing orders, milk pricing, price supports, program effects, world trade.

Foreword

Congress will soon consider new farm legislation to replace the expiring Food Security Act of 1985. In preparation for these deliberations, the Department of Agriculture and many groups throughout the Nation are studying preceding legislation to see what lessons can be learned that are applicable to the 1990's. This report updates **Dairy: Background for 1985 Farm Legislation** (AIB-474) by Richard F. Fallert, James J. Miller, and Lynn G. Sleight. It is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize in a nontechnical form the experience with various farm programs and the key characteristics of the commodities and the farm industries which produce them. For more information, see the Additional Readings listed at the end of the text.

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Summary

Dairy products account for about 13 percent of total cash receipts from all farm commodities. In 1988, cash receipts from dairy products totaled $17.7 billion, ranking second only to cattle and calves with $36.3 billion. Soybeans and corn followed dairy products in cash receipts with $12.4 and $10.1 billion, respectively.

Although milk is produced and processed in every State, over half of total 1989 U.S. milk production came from Wisconsin, California, New York, Minnesota, and Pennsylvania. Two-thirds of the total milk supply was produced in 10 States.

Substantial structural change is taking place in the dairy industry at both the farm and processing levels. The number of farms with milk cows dropped from 2.8 million in 1955 to around 205,000 in 1989; commercial dairy farms declined from 600,000 to around 160,000. The number of milk cows declined from 21 million in 1955 to 11.1 million in 1975, and 10.1 million in 1989. A 143-percent increase in milk production per cow enabled milk production to more than keep pace with commercial needs over the 1955-89 period.

A regional shift in milk production from the traditional dairy areas of the Upper Midwest and Northeast to the West and Southwest began about three decades ago and has accelerated in the last 20 years. Wisconsin is still far ahead as the number one milk producing State, but California is closing the gap.

Federal dairy programs play an important role in the pricing and marketing of milk in the United States. The major dairy programs are dairy price supports, Federal milk marketing orders, import restrictions, and State regulations. Recent legislation has been enacted to address the problems of excess milk supply and large Government purchases and costs associated with the dairy price support program, and to adjust minimum fluid milk prices in Federal milk marketing orders.

The U.S. dairy industry is primarily a domestic industry. Restrictive import quotas are used to prevent lower cost and subsidized dairy products from undercutting U.S. dairy price supports. The import quotas on manufactured dairy products limit imports to about 2.5 billion pounds milk equivalent, just under 2 percent of U.S. milk production in 1989. Exports of as much as 2 percent of U.S. milk production have historically been concessional sales or food aid donations from Government supplies. However, international dairy markets, especially for nonfat dry milk, changed dramatically in 1988. The primary reason for this new situation--in which prices of milk powders, casein, and cheese rose substantially--was European Community (EC-12) and U.S. efforts to reduce dairy surpluses and stocks.

The rather sudden availability of an international market for U.S. dairy products--especially nonfat dry milk--added a certain amount of volatility to the domestic industry. The Minnesota-Wisconsin (M-W) price, for example, reached an all-time high of $14.93 per cwt in December 1989. This was $3.81 (34 percent) above the December 1987 price of $11.12. Strong international markets and prices, however, will depend to a large extent on the maintenance of export "discipline" by the EC-12.

Research indicates that in the absence of subsidized milk production and exports, the United States can compete in world dairy markets. New Zealand has a clear advantage over the United States in milk production, due to its pasture-based system. However, additional pasture resources for dairying are limited. Overall, milk production costs in the United States appear to be in the middle-range of cost estimates in major milk producing countries. This competitive situation for the United States can be influenced by dairy policy. In general, countries that rely on milk supply management programs are put at a disadvantage in international markets as opposed to more market-oriented policies.

Over much of the period since the late 1970's, Government dairy programs have resulted in excess resources being used in milk production and processing. With reduced price supports, the dairy diversion and dairy termination programs, and strong international markets, the industry should enter the 1990's in a better supply-demand balance than in recent years.